

**Financial Statements  
For the Year Ended June 30, 2012**

# **Town of Sylva, North Carolina**

## **Town Council**

Maurice Moody, Mayor

Danny Allen

Barbara Hamilton

Harold Hensley

Christina Matheson

Lynda Sossamon

## **Management**

Paige Roberson, Town Manager

Lynn Bryant, Finance Officer

# Town of Sylva, North Carolina

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# BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the Governing Council  
Town of Sylva  
Sylva, North Carolina

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund and the aggregate remaining fund information of the Town of Sylva, North Carolina, as of and for the year then ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sylva management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Town of Sylva's ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Sylva ABC Board, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Sylva ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund and the aggregate remaining fund information of the Town of Sylva, North Carolina as of June 30, 2012, and the respective changes in financial position and budgetary comparisons for the General Fund, the Fisher Creek Special Revenue Fund and the Revolving Loan Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012 on our consideration of the Town of Sylva's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and the Law Enforcement Officers' Special Separation Allowance and the Other Postemployment Benefits Schedules of Funding Progress and Schedules Employer Contributions on pages 3 – 11 and pages 37 – 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Town of Sylva, North Carolina's basic financial statements. The individual fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The individual fund financial statements, budgetary schedules, and other schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements, budgetary schedules, and other schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burlison & Earley, P.A.*

Certified Public Accountants

October 30, 2012

## Town of Sylva, North Carolina Management's Discussion and Analysis

As management of the Town of Sylva (the Town), we offer readers of the Town of Sylva's financial statements this narrative overview and analysis of the financial activities of the Town of Sylva for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

- The assets of the Town of Sylva *exceeded* its liabilities at the close of the fiscal year by \$12,573,965 (net assets).
- The government's total net assets increased by \$875,757. Revenues increased by 23% and expenses increased by 5% from the prior year resulting in this positive result on net assets in the current year.
- As of the close of the current fiscal year, the Town of Sylva's governmental funds reported combined ending fund balance of \$7,534,480, an *increase* of \$172,710 in comparison with the prior year's increase of \$114,045. Approximately 26 percent or \$1,949,045, is available for spending at the government's discretion (**unassigned general fund balance**).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,949,045, or 60 percent of the total general fund expenditures for the fiscal year. The Town of Sylva's Cash Management Policy states that the Town will maintain at least a 40 percent unassigned fund balance. The Town's general fund balance increased by \$36,521 compared to \$251,649 last year. This positive addition to the Fund Balance was realized even after the Town put a significant down payment on the new ladder truck for the Fire Department.
- Total long-term debt of \$2,263,382 increased by \$239,636 from the previous year. This increase resulted from borrowings to purchase a new fire department ladder truck net of repayments of the vehicle leases, the loan for the fire department renovation project, and net of increases in the liabilities for postemployment benefits.
- Taxes remained at \$.30 per \$100.
- Metrostat Communications, Inc. defaulted on their revolving loan payment which resulted in a \$161,303 loss. In lieu of payment, the Town of Sylva and Jackson County, which also had an outstanding loan, received collateral for duct work, miscellaneous equipment and fiber optic cable. In addition, deeds were received for three parcels of vacant land amounting to \$104,870. All collateral was split equally between the Town of Sylva and Jackson County.

### Overview of the Financial Statements

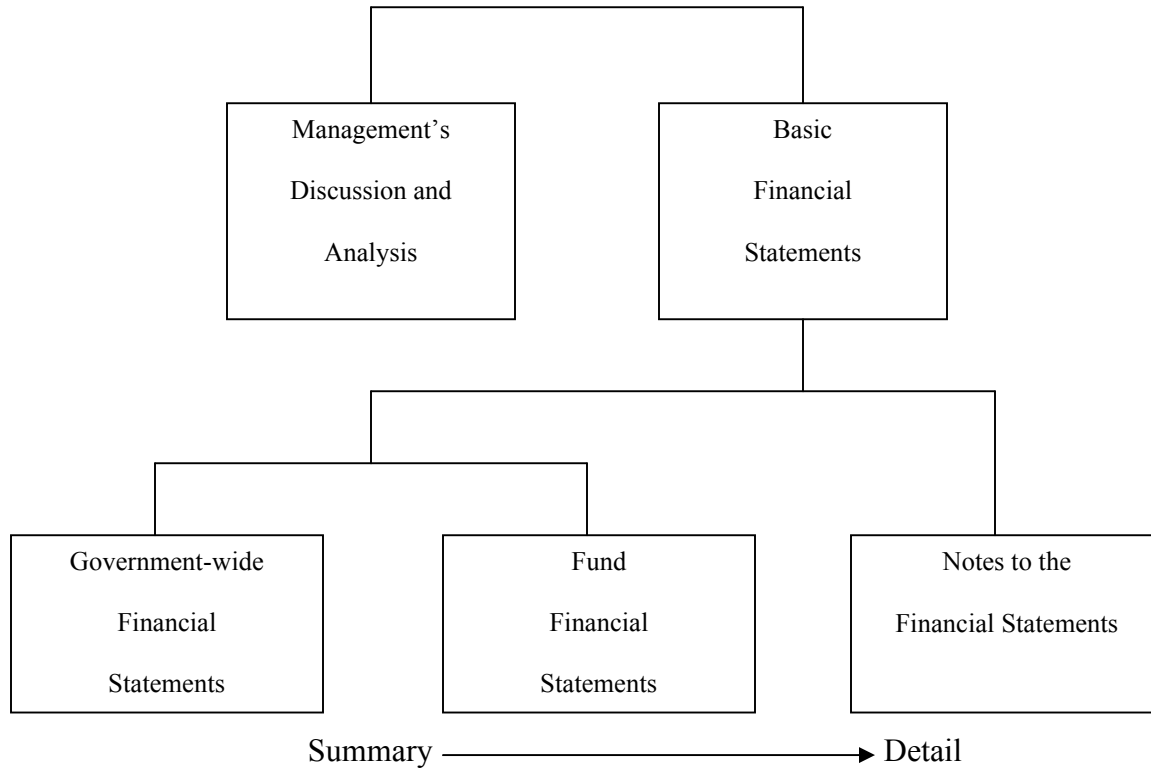
This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of these three components (see Figure 1):

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements

The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader’s understanding of the financial condition of the Town of Sylva.

### Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town’s financial status.

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town government. These statements provide more detail than the government-wide statements. The governmental funds statements and the budgetary comparison statements are the two parts to the Fund Financial Statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town’s individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.



## Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into two types of activities:

**Governmental activities** - The governmental activities include most of the Town's basic services such as public safety, streets, sanitation and recreation. Property taxes and state revenues such as local option sales taxes, finance most of these activities.

**Component unit** - Although legally separate from the Town, the Sylva ABC Board is an important component of the Town. The Town exercises control over the Board by appointing its members and the ABC Board is required to distribute a portion of its profits to the Town of Sylva and Jackson County.

## Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the Town's funds can be divided into governmental funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to

appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 18-36 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 36 of this report, followed by other supplementary information.

**Interdependence with Other Entities:** The Town depends on financial resources flowing from, or associated with, the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to State laws and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

**Government-Wide Financial Analysis**

**The Town of Sylva’s Net Assets  
Figure 2**

	Government Activities		Total	
	2012	2011	\$ Change	% Change
Current assets	\$ 7,723,001	\$ 7,789,970	\$ (66,969)	-1%
Capital assets	7,221,859	6,039,896	1,181,963	20%
Total assets	14,944,860	13,829,866	1,114,994	8%
Long-term liabilities outstanding	2,083,324	2,023,745	59,579	3%
Other liabilities	287,571	107,913	179,658	166%
Total liabilities	2,370,895	2,131,658	239,237	11%
Net assets:				
Invested in capital assets, net of related debt	5,136,681	4,168,070	968,611	23%
Restricted	3,269,969	3,068,337	201,632	7%
Unrestricted	4,167,315	4,461,801	(294,486)	-7%
Total net assets	\$ 12,573,965	\$ 11,698,208	\$ 875,757	7%

As noted earlier, net assets may serve over time as one useful indicator of a government’s financial condition. The assets of the Town exceeded liabilities by \$12,573,965 as of June 30, 2012. The Town’s net assets *increased* by \$875,757 for the fiscal year ended June 30, 2012. The largest portion of net assets, (40%) reflects the Town’s investment in capital assets (e.g. land, construction in progress, buildings, improvements, equipment, vehicles and motorized equipment and infrastructure); less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Sylva’s investment in its

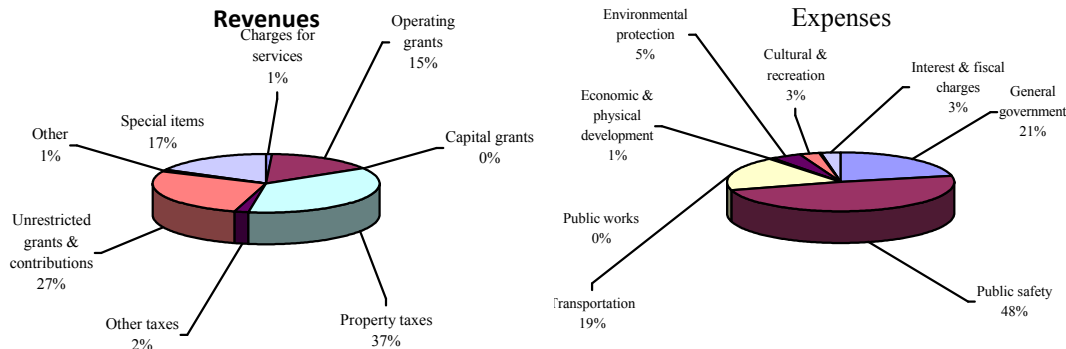
capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The second largest portion (33%) reflects the Town's unrestricted net assets. An additional portion of the Town of Sylva's net assets, \$3,269,969, (26%), represents resources that are subject to external restrictions on how they may be used.

The Town experienced a loss of 7 percent on unrestricted net assets. This loss was primarily a result of bad debt from the Revolving Loan Fund. An increase in the postemployment liability was also a contributing factor.

### Town of Sylva Changes in Net Assets

Figure 3

	Government Activities		Total	
	2012	2011	\$ Change	% Change
<b>Revenues:</b>				
<b>Program Revenues:</b>				
Charges for services	\$ 29,070	\$ 20,643	\$ 8,427	41%
Operating grants and contributions	564,085	488,544	75,541	15%
Capital grants and contributions	500	48,257	(47,757)	-99%
<b>General Revenues:</b>				
Property taxes	1,325,103	1,319,357	5,746	0%
Other taxes	69,343	30,633	38,710	126%
Grants and contributions not restricted to specific programs	988,983	880,556	108,427	12%
Other	(44,890)	76,943	(121,833)	-158%
Special Items	624,027	-	624,027	100%
<b>Total Revenues</b>	<b>3,556,221</b>	<b>2,864,933</b>	<b>691,288</b>	<b>24%</b>
<b>Expenses:</b>				
General government	577,736	541,875	35,861	7%
Public safety	1,313,197	1,175,594	137,603	12%
Transportation	499,342	519,212	(19,870)	-4%
Economic and physical development	14,564	28,893	(14,329)	-50%
Environmental protection	122,072	117,453	4,619	4%
Cultural and recreation	69,028	61,402	7,626	12%
Public works	9,578	10,030	(452)	-5%
Interest and fiscal charges	74,947	80,096	(5,149)	-6%
<b>Total Expenses</b>	<b>2,680,464</b>	<b>2,534,555</b>	<b>145,909</b>	<b>6%</b>
<b>Change in net assets</b>	<b>875,757</b>	<b>330,378</b>	<b>545,379</b>	<b>165%</b>
Net assets, July 1	11,698,208	11,367,830	330,378	3%
Net assets, June 30	\$ 12,573,965	\$ 11,698,208	\$ 875,757	7%



**Governmental activities:** Governmental activities increased the Town's net assets by \$875,757 thereby accounting for 7.5 percent growth in the net assets of the Town of Sylva. An increase in charges for services, implementation of gross receipts for privilege licenses and the exchange of the former Jackson County Library building for the former Chamber of Commerce building contributed to net asset growth

### **Financial Analysis of the Town Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,949,045, while total fund balance reached \$2,865,450. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 60% of total General Fund expenditures.

At June 30, 2012, the governmental funds of Town of Sylva reported a combined fund balance of \$7,534,480, a 2.3% increase over last year. This increase is primarily from general fund operations. Since a healthy fund balance helps to avoid cash flow interruptions, reduces the need for short-term borrowing and provides a financial buffer for emergencies or unforeseen events. The Town's Reserve Policy requires that the Town will maintain an unassigned fund of at least forty percent (40%) of the general operating budget. In addition a target goal has been established for the Town; this goal sets forth that the Town maintain an average available fund balance equal to other units similar in size.

**General Fund Budgetary Highlights** – During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The Town of Sylva estimates revenues, especially intergovernmental revenues, with a conservative approach due to their volatile nature. Several General Fund revenues proved to be greater than originally budgeted. The most notable increase came from ABC Profit Distribution which resulted in a 50 percent increase over the original budget. This was the result of a profit distribution from The Sylva and Bryson City ABC Stores joint venture. The Sylva ABC Store also made an additional fourth quarter distribution. Both were not anticipated revenues. Total General Fund expenditures came in 7 percent under the original budget. All departments showed a savings in their budget at year end.

### **Capital Asset and Debt Administration**

**Capital Assets** – The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$7,221,859 (net of accumulated depreciation). These assets include land, construction in progress, buildings, other improvements, infrastructure, equipment, and vehicles.

Major capital asset transactions during the year include the following additions:

- Purchase of a mower and spreader.
- Purchase of 4 vehicles.
- Purchase of a new ladder truck for the fire department.
- Paving Laurel Branch and East Sylva Circle.
- Keener Street sidewalk.
- Exchanged with Jackson County of the former Chamber of Commerce building for the old library building to be renovated as the new location of the police department.

**Town of Sylva’s Capital Assets  
(net of accumulated depreciation)  
Figure 4**

	Government Activities		Total	
	2012	2011	\$ Change	% Change
Land	\$ 1,316,749	\$ 1,316,749	\$ -	0.00%
Construction in progress	831,328	1,953,826	(1,122,498)	-57.45%
Buildings	2,484,379	577,437	1,906,942	330.24%
Other improvements	148,804	175,341	(26,537)	-15.13%
Computer equipment	1,742	6,353	(4,611)	-72.58%
Equipment	68,712	104,791	(36,079)	-34.43%
Vehicles and motorized equipment	852,104	262,640	589,464	224.44%
Infrastructure	1,518,041	1,642,759	(124,718)	-7.59%
Total	<u>\$ 7,221,859</u>	<u>\$ 6,039,896</u>	<u>\$ 1,181,963</u>	<u>367.49%</u>

Additional information on the Town’s capital assets can be found on page 26 in notes to the Basic Financial Statements.

**Long-term Debt**

As of June 30, 2012, the Town of Sylva had a long-term debt outstanding of \$2,263,382. Of this, \$180,058 is due within one year and \$2,083,324 is due in subsequent years. Debt increased from the previous year by 12 percent. This increase resulted from borrowings to purchase a new ladder truck, net of repayments of vehicle leases and the loan for the fire department renovation project, net of increases in the liabilities for postemployment benefits.

Additional information regarding the Town’s debt can be found starting on Page 33 in the Notes to the Basic Financial Statements.

**Economic Factors and Next Year’s Budgets and Rates**

The current economic downturn is unprecedented in recent history for both North Carolina and the Nation with recovery proving to be slower than anticipated. Locally, the housing market and unemployment numbers are of concern. Economic forecasting remains a challenge due to an unstable, an unpredictable, and sluggish economy. Fortunately the Town of Sylva continues to provide efficient, effective and high quality services at the same level its taxpayers have come to expect without raising the tax rate. This has been accomplished through conservative budgeting, maintaining a sufficient fund balance and keeping debt to a minimal level.

## **Budget Highlights for the Fiscal Year Ending June 30, 2013**

### **Governmental Activities:**

The Town of Sylva has approved a \$3,144,510 budget for fiscal year 2013, which represents a 2.5% percent decrease from the 2012 final budget. The decrease is due in part to less capital spending from the General Fund.

### **Revenues:**

- The tax rate remained at 30 cents per \$100 valuation. This is the ninth year in a row that the governing body has either held the line on the tax rate or actually reduced it. The levy on real property, vehicles, and personal property comprise 39 percent of the General Fund Revenues. The amount of value subject to levy is \$419,836,021 which is a decrease of 2.5 percent from the 2011 fiscal year estimated levy. Most of this anticipated loss is in utilities and business personal property.
- State-collected revenues such as Local Option Sales Tax, Franchise Tax on Utilities, Natural Gas, and Telecommunication, as well as Powell Bill for street maintenance make up a significant part of the General Fund budget. Due to the unstable economic conditions, minimal, flat and no growth was used to estimate revenues for fiscal year end 2012. This conservative approach led to a \$2,250 increase when compared to the 2011 fiscal year budget.
- A noteworthy revenue increase is anticipated in the ABC Profit Distributions.
- General Fund Investment earnings once again are projected to be very minimal. With interest rates remaining at less than 1 percent annual yield.

### **Expenditures:**

- Town employees received a 3 percent cost of living raise. This increase equals to the Consumer Price Index for our area. Medical Insurance had a slight increase from the previous year. Dental and Life Insurance premiums remained the same. The Town continues to pay these benefits for all full time employees. The Town also continues to match employee contributions to the 401K plan up to 5 percent of their wages. The local government employee's retirement system (LGERS) rates decreased this year after several years of increases. The Town Manager and Main Street Director positions were combined when the former part-time Main Street Director accepted the position of Town Manager. The Town continues to set money aside to prefund retiree health insurance. This money is accounted for in the General Fund and has not been invested in a legally binding trust account.
- Capital equipment expenditures included three new police vehicles, a hybrid fuel efficient administration vehicle, as well as a side mount mower, Steiner, F350 Truck, tire changing machine and dump bed for the Public Works Department. These purchases are a result of monies being appropriated from the Capital Reserve Funds, Powell Bill Reserves and Fund Balance.

- The 2012-2013 Budget will reduce the available Fund Balance by \$107,427 compared to the prior year's budgeted appropriation of \$116,200. This Fund Balance reduction will bring the available Fund Balance to 56% of expenditures. The Town's Fund Balance policy is that the Town must maintain a 40% fund balance to expenditures with a goal set to maintain the average of other Town's our size which is currently 67%. Fund balances continue to be closely monitored to ensure that the Town has good cash flow and that funds are available for unforeseen emergencies or economic down turns

### **Requests for Information**

This report is designed to provide a summary of the Town of Sylva's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Lynn Allen Bryant  
Finance Officer  
83 Allen Street  
(828)586-2719  
Sylva, NC 28779  
lbryant@townofsylva.org

## **BASIC FINANCIAL STATEMENTS**



**Town of Sylva, North Carolina**  
**Statement of Net Assets**  
**June 30, 2012**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>	<u>Component Unit</u> <u>Town of Sylva</u> <u>ABC Board</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,855,468	\$ 734,847
Receivables (net)		
Taxes receivable	72,614	-
Accrued interest	18,228	-
Accounts	916	23
Due from other governments	70,774	-
Due from component unit	216,389	-
Inventories	-	234,695
Prepaid expenses	-	5,046
Assets held for resale	52,435	-
Restricted cash and cash equivalents	436,177	-
Capital assets:		
Land and other non-depreciable assets	2,148,077	-
Other capital assets, net of depreciation	5,073,782	227,538
Total capital assets	<u>7,221,859</u>	<u>227,538</u>
Total assets	<u>14,944,860</u>	<u>1,202,149</u>
<b>Liabilities</b>		
Accounts payable	\$ 47,541	\$ 104,388
Accrued liabilities	54,277	127,262
Unearned revenues	5,695	-
Due to primary government	-	216,389
Long-term liabilities:		
Due within one year	180,058	-
Due in more than one year	2,083,324	-
Total liabilities	<u>2,370,895</u>	<u>448,039</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	5,136,681	227,538
Restricted for:		
Capital projects	1,077,713	
Economic development	265,452	
Stabilization by state statute	288,076	
Transportation (Powell Bill)	40,681	
Capital reserves	275,459	
Water quality	1,322,587	
Other purposes		258,186
Unrestricted	4,167,316	268,386
Total net assets	<u>\$ 12,573,965</u>	<u>\$ 754,110</u>

The accompanying notes are an integral part of the financial statements.

**Town of Sylva, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

**Exhibit 2**

<b>Functions/Programs</b>	<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Assets</b>	
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Governmental Activities</b>	<b>Component Unit Town of Sylva ABC Board</b>
<b>Primary government:</b>						
Governmental Activities:						
General government	\$ 577,736	\$ 2,250	\$ 83,329	\$ -	\$ (492,157)	\$ -
Public safety	1,313,197	20,534	376,434	-	(916,229)	-
Transportation	499,342		68,747	-	(430,595)	-
Economic and physical development	14,564		35,575	500	21,511	-
Environmental protection	122,072	1,781			(120,291)	-
Culture and recreation	69,028	4,505			(64,523)	-
Public works	9,578				(9,578)	-
Interest and fiscal charges	74,947				(74,947)	-
<b>Total primary government</b>	<b>\$2,680,464</b>	<b>\$ 29,070</b>	<b>\$ 564,085</b>	<b>\$ 500</b>	<b>\$ (2,086,809)</b>	<b>\$ -</b>
Component unit:						
ABC Board	<b>\$2,878,084</b>	<b>\$ 2,728,508</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (149,576)</b>	<b>\$ (149,576)</b>
General revenues:						
Taxes:						
Property taxes, levied for general purpose					1,325,103	-
Other taxes and licenses					69,343	-
Grants and contributions not restricted to specific programs					988,983	-
Unrestricted investment earnings					22,211	4,465
Miscellaneous, unrestricted					26,374	-
Loss on disposal of capital assets					(93,475)	-
Special items:						
Bad debt in revolving loan fund					(161,303)	-
Building received from Jackson County					796,940	-
Building transferred to Jackson County, net book value					(11,610)	-
<b>Total general revenues and special items</b>					<b>2,962,566</b>	<b>4,465</b>
Change in net assets					875,757	(145,111)
Net assets, beginning					11,698,208	899,221
Net assets, ending					<b>\$ 12,573,965</b>	<b>\$ 754,110</b>

The accompanying notes are an integral part of the financial statements.

**Town of Sylva, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

	<u>Major Funds</u>				<b>Total Governmental Funds</b>
	<b>Police</b>		<b>Fisher Creek Fund</b>	<b>Other Non- Major Funds</b>	
	<b>General Fund</b>	<b>Department Renovation Fund</b>			
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,338,482	\$ 971,382	\$ 3,306,061	\$ 239,543	\$ 6,855,468
Receivables, net:					
Taxes	72,614				72,614
Accounts	916		-		916
Due from other governments	70,774				70,774
Due from component funds	216,389				216,389
Assets held for resale				52,435	52,435
Notes receivable					-
Restricted cash and cash equivalents	316,140			120,037	436,177
<b>Total assets</b>	<b>\$ 3,015,315</b>	<b>\$ 971,382</b>	<b>\$ 3,306,061</b>	<b>\$ 412,015</b>	<b>\$ 7,704,773</b>
<b>Liabilities</b>					
Accounts payable	\$ 27,113	\$ 175	\$ 197	\$ 20,057	\$ 47,542
Accrued liabilities	44,440				44,440
Deferred revenue	78,312				78,312
<b>Total liabilities</b>	<b>149,865</b>	<b>175</b>	<b>197</b>	<b>20,057</b>	<b>170,294</b>
<b>Fund Balances</b>					
Restricted for:					
Stabilization by state statute	288,076				288,076
Streets	40,681				40,681
Capital reserve for fire department	121,550				121,550
Capital reserve for general operations	153,909				153,909
Capital projects		971,207		106,506	1,077,713
Economic development				265,452	265,452
Water quality			1,322,587		1,322,587
Committed					
Economic development	-				-
Conservation			1,979,277		1,979,277
Assigned					
Subsequent year's expenditures	107,427		4,000	20,000	131,427
Other postemployment benefits	173,182				173,182
LEO separation allowance	31,580				31,580
Unassigned	1,949,045			-	1,949,045
<b>Total fund balances</b>	<b>2,865,450</b>	<b>971,207</b>	<b>3,305,864</b>	<b>391,958</b>	<b>7,534,479</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,015,315</b>	<b>\$ 971,382</b>	<b>\$ 3,306,061</b>	<b>\$ 412,015</b>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in funds	7,221,859
Accrued interest receivable on ad volarem taxes receivable	18,228
Liabilities for earned but deferred revenues in fund statements	72,617

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued interest on long-term obligations	(9,836)
Long-term obligations	(2,263,382)

\$ 12,573,965

The accompanying notes are an integral part of the financial statements.

**Town of Sylva, North Carolina**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

**Exhibit 4**

	<b>Major Funds</b>				<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Police Department Renovation Fund</b>	<b>Fisher Creek Fund</b>	<b>Other Non- Major Funds</b>	
<b>Revenues:</b>					
Ad valorem taxes	\$ 1,315,918	\$ -	\$ -	\$ -	\$ 1,315,918
Other taxes and licenses	100,691				100,691
Unrestricted intergovernmental revenues	1,398,184		103	-	1,398,287
Restricted intergovernmental revenues	166,948			3,283	170,231
Permits and fees	26,639				26,639
Investment earnings	4,953	95	13,716	207	18,971
Miscellaneous	15,328	1,100		53,685	70,113
<b>Total revenues</b>	<b>3,028,661</b>	<b>1,195</b>	<b>13,819</b>	<b>57,175</b>	<b>3,100,850</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	477,598				477,598
Public safety	1,788,905	34,462		52,308	1,875,675
Transportation	519,584				519,584
Economic and physical development	10,370		2,746	5,393	18,509
Environmental protection	117,922				117,922
Public works	9,578				9,578
Culture and recreation	59,931				59,931
<b>Debt service:</b>					
Principal	166,486				166,486
Interest and fees	72,150				72,150
<b>Total expenditures</b>	<b>3,222,524</b>	<b>34,462</b>	<b>2,746</b>	<b>57,701</b>	<b>3,317,433</b>
Revenues over (under) expenditures	(193,863)	(33,267)	11,073	(526)	(216,583)
<b>Other financing sources (uses):</b>					
Loan proceeds	379,840				379,840
Proceeds from sale of assets	9,452				9,452
Transfers from other funds	-	1,004,474		42	1,004,516
Transfers to other funds	(158,908)		(253,608)	(592,000)	(1,004,516)
<b>Total other financing sources (uses)</b>	<b>230,384</b>	<b>1,004,474</b>	<b>(253,608)</b>	<b>(591,958)</b>	<b>389,292</b>
Net change in fund balance	36,521	971,207	(242,535)	(592,484)	172,709
<b>Fund balances</b>					
Beginning of year, July 1	2,828,929	-	3,548,399	984,442	7,361,770
End of year, June 30	<b>\$ 2,865,450</b>	<b>\$ 971,207</b>	<b>\$ 3,305,864</b>	<b>\$ 391,958</b>	<b>\$ 7,534,479</b>

The accompanying notes are an integral part of these financial statements.

**Town of Sylva, North Carolina**  
**Reconciliation of the Statement of Revenue, Expenditures, and**  
**Changes in Fund Balance of the Governmental Fund to the Statement of Activities**  
**For the Year Ended June 30, 2012**

**Exhibit 5**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - governmental fund	\$ 172,709
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimate useful lives and reported as depreciation expense.

Capital outlay	814,209
Depreciation	(283,746)
Proceeds from sale of assets	(9,452)
Loss on disposal of capital assets	(93,475)
Value of building received through donation from Jackson County	796,940
Net book value of building transferred to Jackson County	(11,610)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets:

Loan proceeds	(379,840)
Repayment of long-term debt	166,486

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in accrued interest receivable	3,643
Change in deferred/unearned revenue	(26,386)
Change in assets held for resale	(52,435)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Bad debt in revolving loan fund	(161,303)
Compensated absences	(6,308)
Net pension obligation	4,986
OPEB liability	(24,961)
Accrued interest payable	(2,797)

Total change in net assets of governmental activities	\$ 906,660
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The accompanying notes are an integral part of the financial statements.

Statement of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual  
For the Year Ended June 30, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 1,282,900	\$ 1,277,848	\$ 1,315,918	\$ 38,070
Other tax and licenses	79,400	82,900	100,691	17,791
Unrestricted intergovernmental revenues	1,176,298	1,205,750	1,398,184	192,434
Restricted intergovernmental revenues	312,174	131,028	166,948	35,920
Permits and fees	18,140	20,990	26,639	5,649
Investment earnings	3,089	3,089	4,251	1,162
Miscellaneous	13,550	6,480	15,328	8,848
Total revenues	<u>2,885,551</u>	<u>2,728,085</u>	<u>3,027,959</u>	<u>299,874</u>
Expenditures:				
General government	700,616	556,456	477,598	78,858
Public safety	1,747,123	1,882,039	1,788,905	93,134
Transportation	561,254	556,832	519,584	37,248
Economic and physical development	10,750	10,750	10,370	380
Environmental protection	119,745	123,245	117,922	5,323
Public works	9,400	9,600	9,578	22
Culture and recreation	60,564	72,064	59,931	12,133
Debt service:				
Principal	166,488	166,488	166,486	2
Interest and fees	72,151	72,151	72,150	1
Total expenditures	<u>3,448,091</u>	<u>3,449,625</u>	<u>3,222,524</u>	<u>227,101</u>
Revenues over (under) expenditures	(562,540)	(721,540)	(194,565)	526,975
Other financing sources (uses):				
Proceeds from sale of assets	12,000	10,000	9,452	(548)
Loan proceeds	379,840	379,840	379,840	-
Transfers from other funds	150,000	218,143	218,143	-
Transfers to other funds	(171,300)	(398,351)	(36,000)	362,351
Appropriated fund balance	192,000	511,908	-	(511,908)
Total other financing sources (uses):	<u>562,540</u>	<u>721,540</u>	<u>571,435</u>	<u>(150,105)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	376,870	<u>\$ 376,870</u>
Fund balances				
Beginning of year, July 1			2,356,763	
End of year, June 30			<u>\$ 2,733,633</u>	
Legally budgeted UDAG, Capital Reserve and Fire Department Capital Reserve funds are consolidated in the General Fund for reporting purposes:				
Investment earnings			702	
Transfers to the general fund			(218,143)	
Transfers to the police department renovation fund			(122,908)	
			<u>(340,349)</u>	
Fund balance, beginning			472,166	
Fund balance, ending (Exhibit 4)			<u>\$ 2,865,450</u>	

The accompanying notes are an integral part of the financial statements.

**Fisher Creek**

<b>Budget</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Original</b>	<b>Final</b>		
\$ -	\$ -	\$ -	\$ -
		-	-
		103	103
		-	-
		-	-
18,000	11,500	13,716	2,216
18,000	11,500	13,819	2,319
		-	-
		-	-
		-	-
32,000	260,708	2,746	257,962
		-	-
		-	-
		-	-
		-	-
32,000	260,708	2,746	257,962
(14,000)	(249,208)	11,073	260,281
		-	-
14,000	249,208	(253,608)	(502,816)
14,000	249,208	(253,608)	(502,816)
\$ -	\$ -	(242,535)	\$ (242,535)
		3,548,399	
		<u>\$ 3,305,864</u>	

**Town of Sylva, North Carolina**  
**Notes to Financial Statements**

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the Town of Sylva, North Carolina (the Town) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

The Town is a municipal corporation, which is governed by an elected mayor and a five-member board of commissioners. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statement in order to emphasize that it is legally separate from the Town.

**Town of Sylva ABC Board**

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the Town and Jackson County. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative office located at Town of Sylva ABC Board, 50-D West Main Street, Sylva, N.C., 28779.

**B. Basis of Presentation**

*Government-wide Statements:* The Statement of Net Assets and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.



*Fund Financial Statements:* The fund financial statements provide information about the Town's funds. Separate statements for each fund category, governmental, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state grants, and various other taxes and licenses. The primary expenditures are for public safety, transportation, and general government services. The Town also has a UDAG fund that supports economic development and two separate capital reserve funds that are consolidated with the general fund in accordance with the guidance of GASB 54. The budgetary comparison for the UDAG fund has been included in the supplementary information.

**Police Department Renovation Fund.** The fund was established to account for the financial resources to be used for the renovation of the old library building contributed by Jackson County into the new police department.

**Fisher Creek Special Revenue Fund.** This fund was established to account for revenues and expenses associated with the conservation easement for the Fisher Creek Watershed Property.

The Town reports the following non-major governmental funds:

**Fire Department Renovation Fund.** The fund was established to account for the financial resources to be used for the renovation of the Fire Department.

**Signage Fund.** The fund was established to account for the financial resources to be used for the installation of way finding and information signage in downtown Sylva.

**Revolving Loan Special Revenue Fund.** This fund was established to provide low interest loans to businesses that will in turn, generate employment and economic growth. The fund was established with moneys from the Urban Development Assistance Grant (UDAG) Special Revenue Fund. The fund sustains itself through the repayment of the loans and interest.

### **C. Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

*Government-wide Financial Statements.* The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include taxes.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accrued vacation, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Jackson County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Sylva. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Jackson County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has elected not to follow subsequent private-sector guidance.

#### **D. Budgetary Data**

The Town's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General fund, the Revolving Loan Special Revenue fund, and the Fisher Creek Special Revenue fund. Additionally, the Town has adopted a budget for the UDAG fund. A budgetary comparison for the UDAG fund has been included in the supplemental information. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for all other project specific Special Revenue and Capital Project Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted

funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. The governing board must approve any revision of the original budget. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

#### **E. Assets, Liabilities and Net Assets/Fund Balance**

*Deposits and Investments:* All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law (G.S. 159-31). The Town and the ABC Board may designate, as an official depository, any bank or saving association whose principal office is located in North Carolina. Also, the Town and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law (G.S. 159-30(c)) authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Cash Management Trust (NCCMT), an SEC-registered (2a7) money market mutual fund.

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio's are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value, Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

*Cash and Cash Equivalents:* The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

*Restricted Cash:* The restricted cash and cash equivalents in the Governmental Funds represents the balance of proceeds available under the loan agreement to finance the renovations at the fire department. Investment earnings are payable to the Town. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S 136-41.1 through 136-41.4.

*Ad Valorem Taxes Receivable:* In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2011.

*Allowances for Doubtful Accounts:* All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

*Inventories and Prepaid Expenses:* The inventories of the ABC Board are valued at the lower of cost (first-in, first-out) or market, which consists of merchandise held for resale. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements and expensed as the items are used.

*Capital Assets:* Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. It is the policy of the Town to capitalize all capital assets costing more than \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Building	50 years
Other improvements	10-20 years
Equipment	5-15 years
Vehicles and motorized equipment	5-15 years
Infrastructure	20-50 years

Capital assets of the ABC Board are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	20 years
Equipment	3-10 years
Leasehold improvements	10 years

*Long-Term Obligations:* In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

*Compensated Absences:* The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. The ABC Board’s vacation policy provides for accumulation of up to two weeks of vacation each year; however, any unused vacation accrued at December 31 each year may not be carried over and is canceled. For the Town’s government-wide statements an expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a last-in, first-out method of using accumulated time, assuming that employees are taking leave time as it is earned.

The Town’s sick leave policy provides for an unlimited accumulation of earned sick leave and the ABC Board’s policy provides for accumulation of up to thirty (30) days. Sick leave does not vest, but unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

*Net Assets:* Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are

either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statutes.

*Fund Balances:* In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

**Nonspendable Fund Balance** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted Fund Balance** – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

    Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute (G.S. 159-8(a)).

    Restricted for streets - Powell Bill – portion of fund balance that is restricted for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill finds.

    Restricted for Capital Reserve for Fire Department – the portion of fund balance restricted by the Board for the fire department capital needs.

    Restricted for Capital Reserve for General Operations – the portion of fund balance restricted by the Board for Town capital needs.

    Restricted for Economic Development – the portion of fund balance restricted for economic development. This amount is in the Revolving Loan Fund.

    Restricted for water quality – Fisher Creek – portion of fund balance that is restricted for water quality related to the Fisher Creek conservation easement. This amount represents 40% of the initial grant less expenditures up to year end.

    Restricted for capital projects – portion of fund balance that is restricted by revenue source for capital projects.

**Committed Fund Balance** – portion of fund balance that can only be used for specific purposes by majority vote by quorum of the Town’s governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

    Committed for Economic Development – the portion of fund balance assigned by the Board for economic development.

    Committed for conservation – the portion of fund balance received for the conservation easement at Fisher Creek.

Assigned Fund Balance – portion of fund balance that the Town intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriations; however the budget ordinance authorizes the manager to modify the appropriations between objects of expenditures within a department without limitations. The authority also permits the transfer of amounts up to \$2,000 between departments with an official report provided to the board at their next meeting.

Other postemployment benefits – portion of fund balance that is appropriated for other postemployment benefits for retirees.

LEO separation allowance – portion of fund balance that is appropriated for law enforcement officers' special separation allowance.

Unassigned Fund Balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town has adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 40% of budgeted expenditures. In addition, the Town has set a target goal of maintaining an average available fund balance for similar sized municipalities. Once this goal is met the Board may transfer funds to the general fund capital reserve.

## **Note 2 – Detail Notes on All Funds**

### **A. Assets**

#### **Deposits**

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or ABC Board's agent in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town and ABC Board in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the ABC Board or their escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and the ABC Board do not have a deposit policy for custodial credit risk.

On June 30, 2012, the Town's deposits had a carrying amount of \$6,447,592 and a bank balance of \$6,472,057. Of this balance, \$1,000,000 was covered by federal depository insurance and \$5,472,057 was covered by collateral held under the Pooling Method. The Town also has cash on hand of \$300 at June 30, 2012. The ABC Board's deposits had a carrying amount of \$732,647 and a bank balance of \$774,103. Of this balance, \$250,000 was covered by the federal depository insurance and \$524,103 was covered by collateral held under the Pooling Method. The ABC Board also has cash on hand of \$2,200 at June 30, 2012.

**Investments**

At June 30, 2012, the Town had \$843,753 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

**Receivables – Allowances for Doubtful Accounts**

The amounts in the Balance Sheet and the Statement of Net Assets for receivables are net of the following allowances for doubtful accounts:

	<u>June 30, 2012</u>
General Fund - Taxes receivable	<u>\$ 36,000</u>

**Note Receivable**

A note receivable representing a loan made to one company from Urban Development Action Grant revenues went into default during the year. The receivable was collateralized by a deed of trust on the Company's property and by a security interest in machinery, equipment, furniture and fixtures acquired for use in the business. The Town and Jackson County had equal interest in the collateral. Foreclosure occurred against the collateral in January 2012. The Town's share of \$52,435 is recognized as income for the revolving loan fund on the modified accrual basis of accounting. In the government-wide statement of activities, the Town has recognized a bad debt loss of \$161,303 for the remaining amount of the loan outstanding after the value of the collateral. The Town's share of the value of the collateral is presented in the government-wide financial statements as assets held for resale. At June 30, 2012, the Town and County were in negotiations with a buyer for these assets.

## Capital Assets

Capital asset activity for the Town for the year ended June 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,316,749	\$ -	\$ -	\$ 1,316,749
Construction in progress	1,953,826	850,615	1,973,113	831,328
Total capital assets not being depreciated	<u>3,270,575</u>	<u>850,615</u>	<u>1,973,113</u>	<u>2,148,077</u>
Capital Assets Being Depreciated:				
Buildings	1,303,322	1,973,113	65,100	3,211,335
Other improvements	526,749	-	-	526,749
Computer Equipment	44,865	-	-	44,865
Equipment	229,745	17,021	1,300	245,466
Vehicles and motorized equipment	1,680,425	659,425	51,444	2,288,406
Infrastructure	2,766,755	53,184	221,820	2,598,119
Total capital assets being depreciated	<u>6,551,861</u>	<u>2,702,743</u>	<u>339,664</u>	<u>8,914,940</u>
Less Accumulated Depreciation For:				
Buildings	725,885	54,561	53,490	726,956
Other improvements	351,408	26,537	-	377,945
Computer Equipment	43,123	220	-	43,343
Equipment	120,343	57,491	1,300	176,534
Vehicles and motorized equipment	1,417,785	64,623	46,106	1,436,302
Infrastructure	1,123,996	80,314	124,232	1,080,078
Total accumulated depreciation	<u>3,782,540</u>	<u>283,746</u>	<u>225,128</u>	<u>3,841,158</u>
Total capital assets being depreciated, net	<u>2,769,321</u>			<u>5,073,782</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,039,896</u>			<u>\$ 7,221,859</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 70,099
Public safety	84,321
Transportation	116,081
Environmental protection	4,149
Culture and recreation	<u>9,096</u>
Total depreciation expense	<u>\$ 283,746</u>



*Construction commitments:* The Town has active construction projects as of June 30, 2012. At year-end, the Town's commitments with contractors are as follows:

	<u>Spent-todate</u>	<u>Remaining Commitment</u>
Police department renovation fund	\$ 28,000	\$ 787,000

**Component Unit:**

The capital assets of the ABC Board for the year ended June 30, 2012 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets Not Being Depreciated:				
Land	\$ 12,301	\$ -	\$ -	\$ 12,301
Total capital assets not being depreciated	<u>12,301</u>	<u>-</u>	<u>-</u>	<u>12,301</u>
Capital Assets Being Depreciated:				
Buildings	288,800	-	-	288,800
Equipment	90,126	24,276	27,846	86,556
Leasehold Improvements	19,634	-	-	19,634
Total capital assets being depreciated	<u>398,560</u>	<u>24,276</u>	<u>27,846</u>	<u>394,990</u>
Less accumulated depreciation for:				
Buildings	120,814	8,585		129,399
Equipment	62,804	10,139	27,846	45,097
Leasehold Improvements	3,614	1,643	-	5,257
Total accumulated depreciation	<u>187,232</u>	<u>20,367</u>	<u>27,846</u>	<u>179,753</u>
Total capital assets being depreciated, net	<u>211,328</u>	<u>3,909</u>	<u>-</u>	<u>215,237</u>
ABC Board Capital Assets, Net	<u>\$ 223,629</u>			<u>\$ 227,538</u>

**B. Liabilities**

**Pension Plan Obligations**

**Local Governmental Employees' Retirement System**

*Plan Description.* The Town and the ABC Board contribute to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries.

Article 3 of G.S. 12 Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 11.91% and 12%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.74% of annual covered payroll. The contribution requirements of members and the Town and the ABC Board are established and may be amended by the North Carolina General Assembly. The Town’s contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$106,683, \$102,595, and \$87,647, respectively. The ABC Board’s contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$15,664, \$14,290, and \$10,904, respectively. The contributions made by the Town and the ABC Board equaled the required contributions for each year.

**Law Enforcement Officers Special Separation Allowance**

Plan Description. The Town of Sylva administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled but not yet receiving benefits	-
Active plan members	<u>13</u>
Total	<u>15</u>

Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual of basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan. Expenditures are paid as they come due.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. For the current year, the Town paid no benefits. There were no contributions made by employees. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-retirement benefit increases.

Annual Pension Cost and Net Pension Obligation. The Town’s annual pension cost and net pension obligation to the separation allowance for the current year were as follows:

Annual required contribution	\$ 18,515
Interest on net pension obligation	8
Adjustment to annual required contribution	(9)
Annual pension cost	<u>18,514</u>
Contributions made	<u>23,500</u>
Increase in net pension obligation	(4,986)
Net pension obligation beginning of year	<u>155</u>
Net pension obligation end of year	<u><u>\$ (4,831)</u></u>

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 17,751	99.99%	\$ 4,998
2011	\$ 20,883	123.19%	\$ 155
2012	\$ 18,514	126.93%	\$ (4,831)

Funded Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was 17.58 percent funded. The actuarial accrued liability for benefits was \$226,131, and the actuarial value of assets was \$33,150, which are designated monies in the general fund, resulting in an unfunded actuarial accrued liability (UAAL) of \$192,981.

The covered payroll (annual payroll of active employees covered by the plan) was \$496,702, and the ratio of the UAAL to the covered payroll was 38.85 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Supplemental Retirement Income Plan for Law Enforcement Officers**

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 28699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012, were \$28,371, which consisted of \$24,971 from the Town and \$3,400 from the law enforcement officers.

### **Firemen's and Rescue Squad Workers' Pension Fund**

Plan Description. The State of North Carolina contributes, on behalf of the Town of Sylva, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. The state, a non-employer contributor, funds the plan through appropriations. The Town contributes \$10 per month for each member of the fire department. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

### **Defined Contribution 401(k) Plan**

The Town contributes to a defined contribution 401(k) plan, in which the Town has pledged to match, as funds are available, 100% of non-law enforcement employee contributions for the year ended June 30, 2012, were \$35,719, which consisted of \$17,307 from the Town and \$18,412 from the non-law enforcement employees.

### **Other Postemployment Benefits**

#### **Healthcare Benefits**

Plan Description. In addition to providing pension benefits, the Town has elected to provide healthcare benefits to retirees of the Town. The plan provides postemployment healthcare benefits to retirees of the Town provided they are 60 years of age (or age 55 for law enforcement officers) and have at least 10 years of continuous service with the Town or have at least 30 years of continuous service to the Town at any age. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town management may amend the benefit provisions. A separate report was not issued for the plan.

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the General Fund, which is maintained on a modified accrual basis of accounting. No funds are set aside to pay benefits and administrative costs. These expenditures are paid as they come due. For the fiscal year ended June 30, 2012, the Town made payments for post-retirement health benefit premiums of \$41,375.

*Annual OPEB Cost and Net Obligation.* The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual retirement contribution of the employer* (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components to the Town’s annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 66,336
Contributions made	<u>(41,375)</u>
Increase in net OPEB obligation	24,961
Net OPEB obligation, beginning of year	<u>80,876</u>
Net OPEB obligation, end of year	<u><u>\$ 105,837</u></u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 were as follows:

<b>For Year Ended June 30</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2010	\$ 68,511	39.98%	\$ 41,123
2011	\$ 71,981	44.77%	\$ 80,876
2012	\$ 66,336	62.37%	\$ 105,837

*Fund Status and Funding Progress.* As of December 31, 2011, the actuarial accrued liability for benefits was \$373,615, all of which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$999,440, and the ratio of the unfunded actuarial accrues liability to the covered payroll was 37.38 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement Age for Active Employees.* Based on the historical average retirement age for the covered group, active general plan members were assumed to retire at age 60 and active law enforcement officers plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

*Marital Status.* Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality.* Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2005 United States Life Table for Males and for Females were used.

*Turnover.* Non-group-specific age-based turnover data from GASB Statement 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Health Insurance Premiums.* The 2011 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

*Payroll Growth Rate.* The expected long-term payroll growth rate was assumed to be two percent.

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of four percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized over working years. The remaining amortization period at June 30, 2012, was 30 years.

### **Other Employment Benefits**

The Town has elected to provide death benefits to law enforcement officers through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest consecutive month's salary during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of the monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

**Deferred/Unearned Revenues**

The balance in deferred or unearned revenue on the fund statements and unearned revenues on the government-wide statements at year-end are composed of the following elements:

	<b>Unearned or Deferred Revenue</b>	<b>Full Accrual Unearned Revenue</b>
	<hr/>	<hr/>
General Fund:		
Prepaid taxes not yet earned	\$ 5,382	\$ 5,382
Prepaid licenses not yet earned	313	313
Taxes receivable, net	72,617	-
Total	<hr/> <b>\$ 78,312</b> <hr/>	<hr/> <b>\$ 5,695</b> <hr/>

**Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss. There have been no significant reductions in insurance coverage during the year. The Town of Sylva ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has commercial property, general liability, auto liability, workers’ compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage.

The Town carried flood insurance with an annual aggregate limit of \$500,000, excluding the police station and town hall.

In accordance with G.S. 159-29, the Town’s employees that have access to \$100 or more of the Town’s funds at any given time are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

The ABC Board, in accordance with G.S. 18B-700(i), provides bond coverage for each board member and the employees designated as general manager and the finance officer in the amount of \$50,000.

**Long-Term Obligations**

*Capital Leases* – The Town has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the dates of their inception.

In November 2009, the Town entered into an agreement to lease police vehicles which requires three annual payments of \$26,097. The lease obligations were paid in full during the year.

The following is an analysis of the assets recorded under capital leases at June 30, 2012:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles and motorized equipment	<u>\$96,231</u>	<u>\$42,669</u>	<u>\$53,562</u>

*Installment Purchases* – In May 2009, the Town entered into a \$2,131,114 installment purchase contract with Branch Banking and Trust Company (BB&T) to finance the acquisition and construction of a Fire Department facility expansion. The financing contract requires semi-annual principal payments of \$71,037 that began in fiscal year 2010. Interest is also payable semi-annually at a rate of 3.89%. The note is collateralized by a deed of trust. On February 16, 2009, the Town entered into an inter-local cooperation agreement with Jackson County (the “County”) for the renovation, expansion and financing of improvements at the Sylva fire station. The County contracts and agrees to make an annual appropriation from its annual budget to the Town in an amount sufficient to fund the principal and interest payments on the installment purchase contract related to the Fire department facility expansion.

In January 2012, the Town entered into a \$379,840 installment purchase contract with Branch Banking and Trust Company (BB&T) to finance the purchase of a ladder truck for the fire department. The financing contract requires semi-annual principal payments of \$18,992. Interest is also payable semi-annually at a rate of 2.27%. The note is collateralized by the ladder truck

The future minimum payments of all installment purchase contracts as of June 30, 2012, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 180,058	\$ 73,346
2014	180,058	66,956
2015	180,058	60,567
2016	180,058	54,179
2017	180,058	47,790
2018-2022	900,291	143,115
2023-2025	284,598	13,817
Total installment purchase payments	<u>\$ 2,085,179</u>	<u>\$ 459,770</u>

At June 30, 2012, the Town had an approximate legal debt margin of \$33.9 million.

### Changes in Long-Term Liabilities

	<b>Beginning Balances</b>	<b>Increase</b>	<b>Decreases</b>	<b>Ending Balances</b>	<b>Current Portion of Balance</b>
<b>Governmental Activities:</b>					
Installment purchase contracts	\$ 1,847,414	\$ 379,840	\$ 142,521	\$ 2,085,179	\$ 180,058
Capital leases	24,412	-	24,412	-	-
Compensated absences	70,889	47,618	41,310	77,197	-
Net pension obligation	155	18,514	23,500	(4,831)	-
Other postemployment benefits	80,876	66,336	41,375	105,837	-
	<u>\$ 2,023,746</u>	<u>\$ 512,308</u>	<u>\$ 273,118</u>	<u>\$ 2,263,382</u>	<u>\$ 180,058</u>

Compensated absences typically have been liquidated in the General fund.



### **Capital Assets, Net of Related Debt**

Capital assets, net of related debt at June 30, 2012, are computed as follows:

Capital assets, net of accumulated depreciation	\$ 7,221,859
Less capital debt	<u>2,085,178</u>
Capital assets, net of related debt	<u><u>\$ 5,136,681</u></u>

### **Interfund Balances and Activity**

The interfund balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds at June 30, 2012, consisted of the following:

From the General Fund to the Police Department Renovation Fund	<u>\$ 36,000</u>
From the UDAG Fund to the Police Department Renovation Fund	<u>\$ 122,866</u>
From the Fisher Creek Fund to the Police Department Renovation Fund	<u>\$ 253,608</u>
From the Revolving Loan Fund to the Police Department Renovation Fund	<u>\$ 592,000</u>
From the UDAG Fund to the Revolving Loan Fund	<u>\$ 42</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs.

### **Fund Balance**

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total Fund Balance - General Fund	\$ 2,865,450
Less:	
Stabilization by State Statute	288,076
Streets-Powell Bill	40,681
Appropriated Fund Balance in 2012 Budget	107,427
Capital reserve for fire department	121,550
Capital reserve for general operations	153,909
Other Postemployment Benefits	173,182
LEO Separation Allowance	31,580
Fund Balance Policy	<u>1,049,675</u>
Remaining Fund Balance	<u><u>\$ 899,370</u></u>

The Town has adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 40% of budgeted expenditures.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperform at year-end.

Encumbrances		
General Fund	Police Department Renovation Fund	Non-Major Funds
\$ -	\$ 787,000	\$ -

**Jointly Governed Organization**

**Joint Ventures**

The Town and the members of the Town’s fire department each appoint two members to the five-member local board of trustees for the Firemen’s Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen’s Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the State. The state passes these monies to the local board of the Firemen’s Relief Fund. The funds are used to assist fire fighters in various ways. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2012. The Firemen’s Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State’s Firemen’s Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina, 27603.

**Summary Disclosure of Significant Contingencies**

**Federal and State Assisted Programs**

The Town has received proceeds from several state and federal grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

**Contingent Liabilities**

At June 30, 2012, the Town was in dispute with the contractor for the construction and improvements at the fire department. Subsequent to year end, all parties have settled the matter and voluntarily dismissed all claims. The Town agreed to pay the contractor \$17,765.66 in settlement of this matter. The amount has been included in accounts payable at year end.

**REQUIRED SUPPLEMENTAL DATA**

**Town of Sylva, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Require Supplementary Financial Data - Schedule of Funding Progress**  
**Schedule of Employer Contributions and Notes to the Required Schedules**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) - Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Funded Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b-a)/c]</b>
12/31/2001	\$ -	\$ 135,530	\$ 135,530	0.00%	\$ 323,923	41.84%
12/31/2002	-	134,283	134,283	0.00%	332,759	40.35%
12/31/2003	-	133,764	133,764	0.00%	336,586	39.74%
12/31/2004	-	141,713	141,713	0.00%	341,815	41.46%
12/31/2005	6,085	131,239	125,154	4.64%	393,874	31.78%
12/31/2006	17,322	109,109	91,787	15.88%	432,482	21.22%
12/31/2007	20,594	158,412	137,818	13.00%	419,320	32.87%
12/31/2008	20,860	181,966	161,106	11.46%	461,176	34.93%
12/31/2009	25,648 *	198,879	173,231	12.90%	494,398	35.04%
12/31/2010	31,236 *	177,054	145,474	17.84%	470,169	30.94%
12/31/2011	31,580 *	226,131	192,981	14.66%	496,702	38.85%

\* Represents fund balance assigned in the General Fund.

<b>Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2010	\$ 17,751	99.99%
2011	20,883	123.19%
2012	18,514	126.93%

**Notes to Required Schedules:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.25-7.85%
Includes inflation at	3.00%
Cost-of-living adjustments	N/A

**Town of Sylva, North Carolina**  
**Other Postemployment Benefits**  
**Require Supplementary Financial Data - Schedule of Funding Progress and**  
**Schedule of Employer Contributions**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) - Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b-a)/c]</b>
12/31/2009	\$ -	\$ 411,926	\$ 411,926	0.00%	\$ 952,641	43.24%
12/31/2010	-	441,716	441,716	0.00%	948,225	46.58%
12/31/2011	-	373,615	373,615	0.00%	999,440	37.38%

<b>Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2010	\$ 68,511	39.98%
2011	71,981	44.77%
2012	66,336	62.37%

**INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES**

**Town of Sylva, North Carolina**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
<b>Ad valorem taxes</b>			
Taxes	\$ 1,269,448	\$ 1,301,097	\$ 31,649
Penalties and interest	8,400	14,821	6,421
Total ad valorem taxes	<u>1,277,848</u>	<u>1,315,918</u>	<u>38,070</u>
<b>Other taxes and licenses:</b>			
Privilege licenses	<u>82,900</u>	<u>100,691</u>	<u>17,791</u>
<b>Unrestricted intergovernmental revenues</b>			
Local option sales tax	325,000	326,513	1,513
Excise tax on natural gas	6,500	8,340	1,840
Franchise tax	180,000	194,495	14,495
Beer and wine tax	11,500	11,274	(226)
Fire Department sales tax	7,268	7,268	-
Telecommunications sales tax	77,350	76,126	(1,224)
Cable franchise fees	17,300	16,877	(423)
Sales tax refund	7,057	7,082	25
Fire protection	328,573	350,346	21,773
Hold harmless	84,500	85,000	500
Solid waste disposal tax	1,800	1,781	(19)
ABC profit distribution	155,402	309,934	154,532
Substance tax distribution	3,500	3,148	(352)
Total	<u>1,205,750</u>	<u>1,398,184</u>	<u>192,434</u>
<b>Restricted intergovernmental revenues</b>			
Grants	37,000	36,535	(465)
ABC revenues for law enforcement	13,528	25,342	11,814
ABC revenues for education	16,000	36,324	20,324
Powell Bill allocation	64,500	68,747	4,247
Total	<u>131,028</u>	<u>166,948</u>	<u>35,920</u>

**Town of Sylva, North Carolina**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Permits and fees			
Building permits	\$ 100	\$ 600	\$ 500
Recreation fees	5,640	6,105	465
Parking fines	15,250	19,934	4,684
Total	<u>20,990</u>	<u>26,639</u>	<u>5,649</u>
Investment earnings	<u>3,089</u>	<u>4,251</u>	<u>1,162</u>
Miscellaneous	<u>6,480</u>	<u>15,328</u>	<u>8,848</u>
Total revenues	<u>2,728,085</u>	<u>3,027,959</u>	<u>299,874</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	25,475	25,093	382
Operating expenditures	146,657	100,264	46,393
Professional services	50,000	40,080	9,920
Total	<u>222,132</u>	<u>165,437</u>	<u>56,695</u>
Administration:			
Salaries and employees benefits	243,893	233,056	10,837
Operating expenditures	57,494	49,830	7,664
Total	<u>301,387</u>	<u>282,886</u>	<u>18,501</u>
Facilities maintenance:			
Salaries and employee benefits	6,337	6,274	63
Operating benefits	26,600	23,001	3,599
Total	<u>32,937</u>	<u>29,275</u>	<u>3,662</u>
Total general government	<u>556,456</u>	<u>477,598</u>	<u>78,858</u>



**Town of Sylva, North Carolina**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Public safety:			
Police:			
Salaries and employee benefits	\$ 844,529	\$ 826,295	\$ 18,234
Operating expenditures	163,042	146,970	16,072
Capital outlay	16,559	16,559	-
Total	<u>1,024,130</u>	<u>989,824</u>	<u>34,306</u>
Fire:			
Salaries and employee benefits	54,034	52,761	1,273
Operating expenditures	201,092	171,457	29,635
Capital outlay	602,783	574,863	27,920
Total	<u>857,909</u>	<u>799,081</u>	<u>58,828</u>
Total public safety	<u>1,882,039</u>	<u>1,788,905</u>	<u>93,134</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits	263,922	256,354	7,568
Operating expenditures	151,250	125,022	26,228
Capital outlay	141,660	138,208	3,452
Total transportation	<u>556,832</u>	<u>519,584</u>	<u>37,248</u>
Economic and physical development:			
Operating expenditures	10,750	10,370	380
Total economic and physical development	<u>10,750</u>	<u>10,370</u>	<u>380</u>

**Town of Sylva, North Carolina**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Environmental protection:			
Sanitation:			
Salaries and employees benefits	\$ 82,295	\$ 81,705	\$ 590
Operating expenditures	40,950	36,217	4,733
Capital outlay	-	-	-
Total environmental protection	<u>123,245</u>	<u>117,922</u>	<u>5,323</u>
Public works:			
Cemetary:			
Contracted services	<u>9,600</u>	<u>9,578</u>	<u>22</u>
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	24,245	21,991	2,254
Operating expenditures	42,819	32,940	9,879
Total	<u>67,064</u>	<u>54,931</u>	<u>12,133</u>
Libraries:			
Donation to County library	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total culture and recreation	<u>72,064</u>	<u>59,931</u>	<u>12,133</u>
Debt service:			
Principal	166,488	166,486	2
Interest and fees	72,151	72,150	1
Total debt service	<u>238,639</u>	<u>238,636</u>	<u>3</u>
Total expenditures	<u>3,449,625</u>	<u>3,222,524</u>	<u>227,101</u>

**Town of Sylva, North Carolina**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
Revenues over (under) expenditures	<u>\$ (721,540)</u>	<u>\$ (194,565)</u>	<u>\$ 526,975</u>
Other financing sources (uses):			
Proceeds from sale of assets	10,000	9,452	(548)
Loan proceeds	379,840	379,840	-
Transfers from other funds	218,143	218,143	-
Transfers to other funds	(36,000)	(36,000)	-
Appropriated fund balance	<u>149,557</u>	<u>-</u>	<u>(149,557)</u>
Total	<u>721,540</u>	<u>571,435</u>	<u>(150,105)</u>
Net change in fund balance	<u>\$ -</u>	376,870	<u>\$ 376,870</u>
Fund balances:			
Beginning of year, July 1		<u>2,356,763</u>	
End of year, June 30		<u>\$ 2,733,633</u>	

**Town of Sylva, North Carolina**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**UDAG Fund**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Unrestricted intergovernmental revenues	\$ -	\$ -	\$ -
Investment earnings	-	177	177
	<u>-</u>	<u>177</u>	<u>177</u>
Expenditures:			
Jackson County Library	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>177</u>	<u>177</u>
Other financing sources (uses):			
Transfers to police department renovation fun	(122,908)	(122,908)	
Appropriated fund balance	122,908	-	(122,908)
	<u>122,908</u>	<u>-</u>	<u>(122,908)</u>
Net change in fund balance	<u>\$ -</u>	<u>(122,731)</u>	<u>\$ (122,731)</u>
Fund balance:			
Beginning year, July 1		<u>122,731</u>	
End of year, June 30		<u>\$ -</u>	

**Town of Sylva, North Carolina**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Capital Reserve Fund**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Investment earnings	\$ -	\$ 255	\$ 255
	<u>-</u>	<u>255</u>	<u>255</u>
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>255</u>	<u>255</u>
Other financing sources:			
Transfers to general fund	(21,300)		
Appropriated fund balance	21,300	-	(21,300)
	<u>21,300</u>	<u>-</u>	<u>(21,300)</u>
Net change in fund balance	<u>\$ -</u>	255	<u>\$ (21,045)</u>
Fund balance:			
Beginning year, July 1		<u>88,655</u>	
End of year, June 30		<u>\$ 88,910</u>	

**Town of Sylva, North Carolina**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Fire Department Capital Reserve Fund**  
**For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Investment earnings	\$ -	\$ 270	\$ 270
	<u>-</u>	<u>270</u>	<u>270</u>
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>270</u>	<u>270</u>
Other financing sources:			
Transfers to general fund	(218,143)	(218,143)	-
Appropriated fund balance	218,143	-	218,143
	<u>-</u>	<u>(218,143)</u>	<u>218,143</u>
Net change in fund balance	<u>\$ -</u>	<u>(217,873)</u>	<u>\$ (217,873)</u>
Fund balance:			
Beginning year, July 1		<u>260,780</u>	
End of year, June 30		<u>\$ 42,907</u>	

**Town of Sylva, North Carolina**  
**Statement of Revenues and Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Capital Project Fund - Police Department Renovation Fund**  
**For the Year Ended June 30, 2012**

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
<b>Revenues:</b>					
Unrestricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	1,100	1,100	1,100
Investment earnings	-	-	95	95	95
Total revenues	-	-	1,195	1,195	1,195
<b>Expenditures:</b>					
Public Safety:					
Other			74	74	(74)
Construction	1,004,474	-	34,388	34,388	970,086
<b>Revenues under expenditures</b>	<b>(1,004,474)</b>	<b>-</b>	<b>(33,267)</b>	<b>(33,267)</b>	<b>971,207</b>
<b>Other financing sources (uses):</b>					
Transfers from other funds	1,004,474		1,004,474	1,004,474	-
Net change in fund balance	\$ -	\$ -	971,207	\$ 971,207	\$ 971,207
Fund balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ 971,207		

**Town of Sylva, North Carolina**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2012**

	<b>Capital Projects</b>				<b>Total Non-Major Governmental Funds</b>
	<b>Fire Department Renovation Fund</b>	<b>Signage Fund</b>	<b>Revolving Loan Fund</b>		
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 4,776	\$ 234,767	\$	239,543
Assets held for resale			52,435		52,435
Restricted cash and cash equivalents	120,037				120,037
Total assets	\$ 120,037	\$ 4,776	\$ 287,202	\$	412,015
<b>Liabilities</b>					
Accounts payable	\$ 18,307	\$ -	\$ 1,750	\$	20,057
Total liabilities	18,307	-	1,750		20,057
<b>Fund Balances</b>					
Assigned					
Subsequent year's expenditures			20,000		20,000
Restricted for:					
Economic development			265,452		265,452
Capital projects	101,730	4,776			106,506
Total fund balances	101,730	4,776	285,452		391,958
Total liabilities and fund balances	\$ 120,037	\$ 4,776	\$ 287,202	\$	412,015



**Town of Sylva, North Carolina**  
**Combining Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**Non-major Governmental Funds**  
**For the Year Ended June 30, 2012**

	<u>Capital Projects</u>			<b>Revolving Loan Fund</b>	<b>Total Non-Major Governmental</b>
	<b>Fire Department Renovation</b>	<b>Signage Fund</b>			
<b>Revenues:</b>					
Unrestricted intergovernmental revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted intergovernmental revenues	-	42	3,241	3,283	3,283
Investment earnings	198	9		207	207
Miscellaneous			53,685	53,685	53,685
Total revenues	<u>198</u>	<u>51</u>	<u>56,926</u>	<u>57,175</u>	<u>57,175</u>
<b>Expenditures:</b>					
Current:					
Public safety	52,308			52,308	52,308
Economic and physical development		-	5,393	5,393	5,393
Total expenditures	<u>52,308</u>	<u>-</u>	<u>5,393</u>	<u>57,701</u>	<u>57,701</u>
Revenues over (under) expenditures	(52,110)	51	51,533	(526)	(526)
<b>Other financing sources (uses):</b>					
Transfers from other funds			42	42	42
Transfers to other funds	-		(592,000)	(592,000)	(592,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(591,958)</u>	<u>(591,958)</u>	<u>(591,958)</u>
Net change in fund balance	(52,110)	51	(540,425)	(592,484)	(592,484)
Fund balances					
Beginning of year, July 1	<u>153,840</u>	<u>4,725</u>	<u>825,877</u>	<u>984,442</u>	<u>984,442</u>
End of year, June 30	<u>\$ 101,730</u>	<u>\$ 4,776</u>	<u>\$ 285,452</u>	<u>\$ 391,958</u>	<u>\$ 391,958</u>

**Town of Sylva, North Carolina**  
**Statement of Revenues and Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Non-major Governmental Fund - Capital Project Fund - Fire Department Fund**  
**For the Year Ended June 30, 2012**

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
<b>Revenues:</b>					
Unrestricted intergovernmental	\$ -	\$ 31,171	\$ -	\$ 31,171	\$ 31,171
Investment earnings		2,824	198	3,022	3,022
Total revenues	<u>-</u>	<u>33,995</u>	<u>198</u>	<u>34,193</u>	<u>34,193</u>
<b>Expenditures:</b>					
Public Safety:					
Other			2,117	2,117	(2,117)
Construction	<u>2,131,114</u>	<u>1,955,911</u>	<u>50,191</u>	<u>2,006,102</u>	<u>125,012</u>
<b>Revenues under expenditures</b>	<u>(2,131,114)</u>	<u>(1,921,916)</u>	<u>(52,110)</u>	<u>(1,974,026)</u>	<u>157,088</u>
<b>Other financing sources (uses):</b>					
Transfers to other funds			-	-	-
Installment purchase contracts	<u>2,131,114</u>	<u>2,131,114</u>		<u>2,131,114</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 209,198</u>	<u>(52,110)</u>	<u>\$ 157,088</u>	<u>\$ 157,088</u>
Fund balance:					
Beginning of year, July 1			<u>153,840</u>		
End of year, June 30			<u>\$ 101,730</u>		

**Town of Sylva, North Carolina**  
**Statement of Revenues and Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Non-major Governmental Fund - Capital Project Fund - Signage Fund Fund**  
**For the Year Ended June 30, 2012**

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Positive (Negative)</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
<b>Revenues:</b>					
Restricted intergovernmental	\$ 9,000	\$ 9,000	\$ 42	\$ 9,042	\$ 42
Investment earnings		13	8	21	21
	<u>9,000</u>	<u>9,013</u>	<u>50</u>	<u>9,063</u>	<u>63</u>
<b>Expenditures:</b>					
Directional signage	<u>9,000</u>	<u>4,287</u>	<u>-</u>	<u>4,287</u>	<u>4,713</u>
<b>Revenues under expenditures</b>	<u>-</u>	<u>4,726</u>	<u>50</u>	<u>4,776</u>	<u>4,776</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 4,726</u>	<u>50</u>	<u>\$ 4,776</u>	<u>\$ 4,776</u>
Fund balance:					
Beginning of year, July 1			<u>4,726</u>		
End of year, June 30			<u>\$ 4,776</u>		

## **OTHER SCHEDULES**

**Town of Sylva, North Carolina**  
**General Fund**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2012**

<b>Fiscal year</b>	<b>Uncollected Balance June 30, 2011</b>	<b>Additions</b>	<b>Collections and Credits</b>	<b>Uncollected Balance June 30, 2012</b>
2011-2012	\$ -	\$ 1,271,680	\$ 1,217,824	\$ 53,856
2010-2011	50,177		31,495	18,682
2009-2010	15,240		8,676	6,564
2008-2009	9,136		2,521	6,615
2007-2008	11,811		1,830	9,981
2006-2007	4,135		222	3,913
2005-2006	2,272		114	2,158
2004-2005	2,782		89	2,693
2003-2004	2,243		47	2,196
2002-2003	1,977		21	1,956
2001-2002	1,799		1,799	-
	<u>\$ 101,572</u>	<u>\$ 1,271,680</u>	<u>\$ 1,264,638</u>	<u>\$ 108,614</u>
Less: allowance for uncollectible accounts - general fund				(36,000)
Ad valorem taxes receivable - net				\$ 72,614
 <u>Reconciliation with revenues</u>				
Ad valorem taxes - general fund				\$ 1,315,918
 <u>Reconciliation items</u>				
Amounts written off for tax year 2001-2002 per statute of limitations				1,799
Collection of tax lien				(23,805)
Rental vehicle tax				(11,527)
Prior year releases, refunds, and other adjustments				(2,926)
Subtotal				(36,459)
Less:				
Penalties and interest collected				(14,821)
Total collections and credits				\$ 1,264,638

**Town of Sylva, North Carolina  
Analysis of Current Tax Levy  
For the Year Ended June 30, 2012**

	<u>Town-Wide Levy</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy					
Property taxed at current year's rate	\$ 427,635,657	0.30	\$ 1,282,907	\$ 1,238,622	\$ 44,285
	<u>427,635,657</u>		<u>1,282,907</u>	<u>1,238,622</u>	<u>44,285</u>
Discoveries					
Prior year taxes	1,112,657	0.30	3,338	3,338	
Assessments under appeal	(1,423,510)	0.30	(4,271)	(4,271)	
	<u>(310,853)</u>		<u>(933)</u>	<u>(933)</u>	<u>-</u>
Abatements	<u>(3,431,467)</u>	0.30	<u>(10,294)</u>	<u>(8,670)</u>	<u>(1,624)</u>
Total property valuation	<u>\$ 423,893,337</u>				
Net levy			1,271,680	1,229,019	42,661
Uncollected taxes at June 30, 2012			<u>(49,585)</u>	<u>(43,011)</u>	<u>(6,574)</u>
Current year's taxes collected			<u>\$ 1,222,095</u>	<u>\$ 1,186,008</u>	<u>\$ 36,087</u>
Current levy collection percentage			<u>96.10%</u>	<u>96.50%</u>	<u>84.59%</u>

## **COMPLIANCE**

# BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

## **Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

To the Honorable Mayor and  
Members of the Governing Council  
Sylva, North Carolina

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregated remaining funds of the Town of Sylva, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town of Sylva's basic financial statements, and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the Town of Sylva is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Sylva's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Sylva's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town of Sylva, in a separate letter dated October 30, 2012.

This report is intended solely for the information and use of management, others within the entity, and the governing council and is not intended to be and should not be used by anyone other than these specified parties.

*Burleson & Earley, P.A.*  
Certified Public Accountants  
October 30, 2012